DEF-34 ENCOURAGE PRIVATE OWNERSHIP OF INDUSTRIAL ASSETS USED IN DEFENSE PRODUCTION

Savings from the 1995 Plan	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
Budget Authority	310	320	330	340	360	1,660
Outlays	230	300	330	340	350	1,550

Contractors producing goods and services for the Department of Defense currently hold $9 billion worth of government-owned industrial plant equipment (IPE) and other plant equipment (OPE). IPE includes metal presses and milling machines that are widely used in industry; OPE includes items such as commercial computers, filing cabinets, and desks. Believing that private ownership would be more economical, DoD officials have sought since the early 1970s to reduce the department's role in providing such assets.

This option would facilitate DoD's efforts to reduce its inventories of both types of equipment. It provides for legislation that would grant the General Services Administration (GSA) clear authority to negotiate the sale of equipment to the holding contractor in situations in which continued DoD ownership is not necessary but the contractor requires the equipment for defense production. Moreover, in future contracts in which the contractor can demonstrate that it is in DoD's best interest to provide equipment, contractors would have to obtain the assets from DoD on an explicit rental or lease basis. Rental charges for DoD-owned equipment would encourage contractors to invest in their own equipment. (Under the current system, the department does not charge contractors rent for the use of IPE and OPE in defense production; instead, DoD benefits to the extent that providing such assets lowers the prices of the goods and services that contractors provide.)

DoD's desire to reduce its role in providing industrial assets to defense contractors appears to be justified. Contractors complain that the costs of tracking such equipment in accordance with government standards sometimes outweighs the value of the assets. Government auditors report that items are sometimes lost and that contractors hold on to unneeded or underused items rather than return them to DoD. The costs DoD incurs in providing industrial equipment are not fully reflected in the estimates of weapon system costs that are used in making program decisions. The benefits to DoD--the lower prices paid for the goods and services that contractors provide--are uncertain. Because contractors are generally not free to use DoD assets to produce goods and services for non-DoD customers, they may be discouraged from integrating defense and commercial production and may thus lose economies of scale. Moreover, contractors with access to assets supplied by the government may have little incentive to invest in more modern and efficient equipment.

DoD's efforts to reduce inventories, however, have not been very successful. The total value of industrial and other plant equipment appears to be rising. Improved reporting of assets may be partly responsible for that increase, but another factor is that GSA lacks clear authority to conduct negotiated sales of IPE and OPE to the contractors who hold those assets. (GSA already has the authority to conduct such negotiated sales of real property that DoD identifies as necessary for defense production but feels it does not have to own.) By providing that authority, this option would permit DoD to divest itself of IPE and OPE without disrupting the work of the contractors who are using those assets in defense production.

DoD has also found it difficult to enforce policies that limit the provision of DoD-owned equipment to contractors while still giving program managers the flexibility to provide equipment when it is in DoD's interest to do so. Program managers may have an incentive to try to help contractors and reduce measured program costs by authorizing the use of DoD equipment whenever they can. The rental payments required under this option would eliminate that incentive by making the costs of DoD-provided equipment clearly visible. The Defense Logistics Agency or the GSA could be responsible for setting rents at levels that would fully amortize the cost of the equipment and the overhead costs associated with its management (including the costs of carrying inventories). Faced with such rental prices, contractors would have a strong incentive to purchase their own equipment.

CBO estimates that savings under this option could amount to $1.7 billion between 1996 and 2000. That estimate reflects reduced purchases of new equipment for the use of contractors but does not include revenues from asset sales. Although sales of federal assets reduce the deficit in the short run, they do not count as savings under the provisions of the Budget Enforcement Act. Over the long run, part of the savings from fewer government purchases of OPE and IPE would be offset by higher prices for defense goods. Some savings would remain, however, since contractors who provided their own capital would try to use it efficiently and would not have to bear the cost of monitoring and tracking government-owned assets.

The need to set explicit rental prices and enter into rental agreements with contractors is one disadvantage of this option. In practice, however, rental agreements would be needed only when it was in the government's interest to provide equipment and when renting was more attractive to the contractor than either a negotiated purchase from DoD or a purchase from a commercial source. Another potential disadvantage is that the government might not receive as high a price in a negotiated sale as it would if the asset was declared excess federal property, removed from the hands of the contractor, and sold to the highest bidder. Limiting GSA's authority to conduct such sales to a three- to five-year period might alleviate this concern while still permitting DoD to reduce existing inventories of industrial and other plant equipment.

DEF-35 RECOVER THE FULL COST OF MILITARY EXPORTS

Addition to Current-Law Receipts	Annual Added Receipts (Millions of dollars) 1996	1997	1998	1999	2000	Cumulative Five-Year Addition
Budget Authority	110	120	210	230	250	920
Outlays	110	120	210	230	250	920

The United States now exports more military equipment and services than any other country, a position held by the former Soviet Union during the 1980s. From 1990 through 1993, total arms transfer agreements worldwide fell by 40 percent from the previous four-year period. In contrast, U.S. arms transfer agreements increased both in volume and in world market share during the latter period; in 1993, the United States was responsible for nearly 70 percent of all transfer agreements. Economic concerns rather than Cold War competition have now become the primary motivation for arms sales, and with the end of the Cold War, the need to subsidize global alliances has greatly diminished. Indeed, Russia has terminated most of its grant agreements and now pursues arms exports as a means of earning hard currencies.

This option would reinstate a policy of full cost recovery to U.S. foreign military sales programs by reversing recent changes in U.S. laws and regulations. If the government recovered the full cost of arms sales, its additional receipts would be $110 million in 1996 and $920 million over five years. That estimate assumes that the amount of new arms sales agreements will fall compared with recent levels as importing countries focus on sustaining existing weapon systems. Lower subsidies are estimated to have little effect on sales.

Specifically, this option would eliminate several different subsidies now provided for foreign arms sales. It would reimpose charges for nonrecurring research, development, and production on licensed commercial exports of major defense equipment and charges for the use of U.S. government-supplied plant and production equipment on all sales. That would recoup some of the U.S. government's investment. In addition, the option would require that the administrative surcharge include the full cost of civilian and military personnel who work on foreign military sales.

Proponents of subsidizing military exports argue that the exports forge important ties between the United States and foreign military leaders. They also contend that having U.S. equipment would facilitate joint operations involving U.S. and foreign forces. They argue that significant increases in the cost of military exports would adversely affect the U.S. defense industrial base. Exports are also an important source of business and employment for defense industries. Advocates of arms sales claim that each billion dollars of exports supports 20,000 to 25,000 jobs in defense industries.

Opponents counter that concerns about the proliferation of weapons outweigh the benefits of protecting the U.S. defense industrial base. They argue that no economic studies have shown that demand for military equipment would be sensitive to the modest price increases proposed in the option. They contend that military exports can harm importing countries by contributing to destabilizing regional arms races, increasing the destructiveness and violence of regional wars, and draining resources away from civilian investment.

This option takes no position on the merits or demerits of arms sales programs. It notes only that U.S. defense industries have significant advantages over their foreign competitors and thus should not need additional subsidies to attract sales. Because the U.S. defense procurement budget is nearly twice that of all Western European countries combined, U.S. industries can realize economies of scale not available to their competitors. The U.S. defense research and development budget is five times that of all Western European countries combined, which assures that U.S. weapon systems are and will remain technologically superior to those of other suppliers. The military and political ties with the United States associated with the sales are also an important benefit to many foreign countries. No other country can offer the same military or logistical assistance in times of crisis as the United States.

Perhaps most important, the elimination of government subsidies might encourage discussions about nonproliferation with other arms exporters. By demonstrating the threat posed by regional conflicts, the Persian Gulf War generated calls for new approaches to controlling the proliferation of conventional weapons, especially within the Middle East. The United States began a series of discussions with the other permanent members of the United Nations Security Council with the intention of establishing a mechanism of notification and consultation to curtail destabilizing arms sales to that region. Those discussions faltered when China ended its participation following the United States' sale of F-16 fighter aircraft to Taiwan. As those events suggest, promoting arms sales for economic reasons can have serious diplomatic and security implications that may outweigh economic concerns.

DEF-36 CEASE SUPPORTING MULTILATERAL DEVELOPMENT BANKS

	Annual Savings (Millions of dollars) 1996	1997	1998	1999	2000	Cumulative Five-Year Savings
	From the 1995 Funding Level					
Budget Authority	1,531	1,674	1,717	1,828	1,903	8,653
Outlays	178	424	754	1,097	1,297	3,750
	From the 1995 Funding Level Adjusted for Inflation					
Budget Authority	1,586	1,795	1,902	2,136	2,253	9,671
Outlays	185	450	808	1,195	1,446	4,084

The World Bank was established 50 years ago to finance the reconstruction of Europe after World War II. The bank and its regional counterparts--the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, and the European Bank for Reconstruction and Development--are an important source of financing for developing countries. These multilateral development banks are owned by 177 member countries and have assets of $220 billion. The banks have grown over the years through periodic increases in their stock. Member nations participate in the stock increases by directly purchasing the stock or by promising to back the banks' debts (termed callable-capital stock). The banks finance much of their lending activities by borrowing in the private credit markets. In addition, member countries contribute funds that the banks lend to low-income countries on highly concessional terms.

The World Bank and its counterparts have come under sharp attack recently. The major criticisms are that the multilateral banks have harmed the economies and people they were supposed to help, that some of the projects they have funded have damaged the environment, and that the banks' managers are overpaid and out of touch.

Under this option, the United States would continue to be a member and stockholder in the banks but would stop supplying new capital. The federal government would fulfill its currently authorized commitments but would not agree to new stock purchases or additional contributions. Adopting this approach would save $1.5 billion in 1996 and $8.7 billion over the next five years compared with the 1995 funding level. Savings would be higher--$1.6 billion in 1996 and $9.7 billion over the next five years--compared with the 1995 funding level adjusted for inflation.

A number of arguments have been advanced for limiting U.S. support for the banks. Some critics charge that the banks have forgotten the first principle of sustainable development: the projects being funded must generate a positive return on the investment. Internal audits report that over a third of the World Bank's projects are unsatisfactory at completion and that nearly 40 percent of the countries borrowing from the bank have problems with more than a quarter of their projects. Critics claim those poor investments have contributed to the "debt overhang," or insolvency, of severely indebted low-income countries. In 1993, for example, the median share of long-term debt that such countries in Africa owed to the multilateral banks was 40 percent.

Critics claim that the multilateral banks are bloated bureaucracies that are more interested in approving and disbursing loans than in determining whether the loans are well invested. They argue that the banks have incentive systems that create a preoccupation with getting loans approved. Loan officers add features to their proposals that may enhance the prospect of obtaining the board's approval but that complicate implementation and endanger the success of the projects being funded. They focus too much on project characteristics and too little on a country's ability and commitment to carry out the project. As a result, projects may be approved for countries that are not committed to their success; economic returns may therefore be lower than projected. Not increasing their resources would force the banks to pay more attention to the success of lending activities and efficient management.

Some critics also claim that the bank's lending harms the economies of developing countries. They believe that large amounts of aid could raise the recipient country's exchange rate and reduce the country's need to earn foreign exchange through exports. An overvalued exchange rate increases the relative costs of domestic products, thereby reducing their competitiveness in world markets. According to this argument, poor investments by the multilateral banks not only waste money but also drag down the entire economy of the recipient country. Other critics believe that the bank's lending policies create a bias toward government control of the economy. The banks lend primarily to or through governments, and critics argue that that promotes the growth of inefficient government sectors to the detriment of the private sector. In countries that do not have representative governments, the lending benefits the state or the people or parties that control the state rather than the population at large. The constant infusion of concessional lending weakens financial discipline, destroying the incentives that foster sound business practices.

Finally, environmental groups charge that the large-scale projects funded by the banks too often damage the environment and marginalize indigenous peoples. They point to examples such as the Polonoreste plan in northern Brazil, where new set-tlers have burned thousands of square miles of tropical forests to produce cropland, which is soon exhausted, and grazing land for large cattle ranchers. The banks have financed dams for irrigation in India that have displaced hundreds of thousands of poor farmers and tribal peoples without improving their standard of living. The dams have inundated entire ecosystems.

Supporters of the banks would argue that the banks are the most effective instrument in promoting policy reform in developing countries and in countries undergoing the transformation to democracies with a free-market orientation. The banks promote U.S. interests around the world on a scale that the United States, acting alone, could not afford. For example, the banks have undertaken important initiatives such as promoting reform in Eastern Europe and the republics of the former Soviet Union, reducing poverty in Africa and Asia, and fostering development in the West Bank and Gaza. If the United States stopped contributing to the banks, its ability to shape their policies and operations would be weakened. Supporters would also note that the harmful effects on indigenous populations, the environment, and the economy were common to all past development efforts, not just the banks' projects.

The banks' advocates might also point out that developing countries are the most rapidly expanding export market and that the financing the banks provide is a particularly important source of support in expanding U.S. exports to those countries. They might argue further that the poor performance of the banks' portfolios is exaggerated: development is a risky business, and if the banks were making only safe loans, they would not be serving their main function of taking risks that profit-oriented investors shun.

DEF-37 ELIMINATE OVERSEAS BROADCASTING AND REDUCE EXCHANGE PROGRAMS

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
			From the 1995 Funding Level			
Budget Authority	145	255	620	685	685	2,390
Outlays	-100[a]	195	570	675	685	2,025
			From the 1995 Funding Level Adjusted for Inflation			
Budget Authority	165	305	695	790	820	2,775
Outlays	-15[a]	270	640	770	805	2,470

a. Because of termination costs, no savings are realized until 1997.

U.S. overseas broadcasting is provided by several entities. Radio Free Europe (RFE) and Radio Liberty (RL) broadcast country-specific news to Eastern Europe and the former Soviet Union, respectively. The Voice of America (VOA) oversees radio broadcasts that provide news and U.S.-related information to audiences worldwide. In 1994, the Congress consolidated appropriations for RFE/RL and VOA, though they remain separate entities.

The United States Information Agency (USIA) oversees television broadcasting services similar to the radio broadcasts of VOA and also manages a broadcasting service to Cuba. In addition, the USIA administers educational and cultural exchange programs, in which U.S. citizens travel to foreign countries and foreign citizens come to the United States to learn about the other country's institutions and culture.

This option would eliminate VOA and RFE/RL, end broadcasting services to Cuba, and reduce funding for exchange programs by 30 percent. Such reductions in exchange programs would eliminate all real growth that occurred between 1991 and 1995. The option would also end all overseas construction of broadcast facilities and would end U.S. overseas television broadcasting. When measured against the 1995 funding level, five-year savings would total nearly $2.4 billion. Closing RFE/RL and VOA, which have a combined operating budget of $470 million, would cost about $155 million in 1996 but would yield five-year savings of about $1.2 billion. Over the five-year period, ending broadcasts to Cuba would save about $105 million; terminating construction of broadcast facilities, $560 million; and stopping U.S.-sponsored television broadcasts, about $105 million. Near-term savings for those programs would be reduced by large termination costs, such as severance pay for employees. The 30 percent reduction in funding for exchange programs would save an additional $460 million in 1996 through 2000. Compared with the 1995 funding level adjusted for inflation, this option would save approximately $2.8 billion over the five-year period.

Proponents of terminating overseas broadcasting claim that RFE/RL and VOA are relics of the Cold War that are no longer necessary. RFE and RL continue to broadcast to countries of Eastern Europe and the former Soviet Union even though, after the fall of communism, those countries have ready access to world news. With the advent of satellite television broadcasting, most nations can receive world and U.S.-related news from private broadcasters, such as the Cable News Network (CNN). Some proponents also argue that the primary technology used by VOA and RFE/RL limits the effectiveness of U.S. overseas broadcasting; because shortwave radios are needed to receive most broadcasts, audiences are limited. Finally, foreigners may distrust the accuracy of broadcasts sponsored by the U.S. government.

Critics of this option would argue that the current level of broadcasting should continue or even increase. The process of change in Eastern Europe and the former Soviet Union needs nurturing, and U.S. broadcasting can assist in that process. In other parts of the world, many countries remain closed. Supporters of VOA and RFE/RL argue that shortwave radio broadcasts are the best way to reach people in closed countries because very few people own satellite dishes, which are needed to receive television broadcasts such as those by CNN. They note that VOA and RFE/RL are continuing to broadcast more programs over AM and FM frequencies. Supporters also argue that broadcasting should be sharply increased to some countries, such as China and North Korea. Further, they believe that television is a powerful communications tool and that private television networks cannot adequately communicate U.S. policy and viewpoints.

Funding for U.S.-sponsored exchange programs has grown by about 35 percent in real terms between 1991 and 1995. Critics of the programs argue that some of this growth may have been unnecessary because as increased communication and private travel make the world a smaller place, the need for exchanges decreases.

Advocates of exchange programs believe that exchanges provide participants with a unique perspective and an in-depth knowledge of foreign cultures and institutions. They argue that as the United States continues to build stronger economic and political ties with foreign countries, this knowledge is invaluable, and funding for exchange programs should therefore be increased, not decreased.

DEF-38 REDUCE EXIMBANK'S CREDIT ASSISTANCE

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
From the 1995 Funding Level						
Budget Authority	287	287	287	287	287	1,433
Outlays	30	99	164	215	235	744
From the 1995 Funding Level Adjusted for Inflation						
Budget Authority	313	340	370	400	431	1,854
Outlays	33	111	192	264	307	908

The Export-Import Bank (Eximbank) promotes U.S. exports by providing subsidized financing to foreign buyers of U.S. goods. The bank makes direct loans with below-market interest rates and provides guarantees of private lending without receiving full compensation for the contingent liability of future losses. The U.S. exporter and the foreign buyer share those subsidies. In the 60 years since its creation, Eximbank has lost $8 billion on its operations, practically all in the past 15 years. New subsidy costs for Eximbank are estimated to be about $0.8 billion a year.

This option would cut the subsidy appropriation by one-third, to $500 million a year, saving $287 million in 1996 and $1.4 billion through 2000 compared with the 1995 funding level. The option would save $313 million in 1996 and $1.9 billion over the next five years compared with the 1995 funding level adjusted for inflation. To ease the impact that reduced funding would have on exports, the bank could raise risk-related fees and ration its budgetary resources to sales that would not go forward without government-assisted financing.

Eximbank's credit assistance is driven by demand. The bank provides assistance on a first-come, first-served basis and tries to meet all requests. Supporters of Eximbank call for ever-larger funding levels to meet exporters' desires for subsidized credits. But U.S. exports are not increased if the bank's credit is substituting for private-sector financing. The bank could avoid such substitution by targeting regions that are underserved by private-sector financing.

Supporters of Eximbank say that the subsidies it provides offset those provided by foreign governments and that cutting the subsidies would put U.S. exporters at a disadvantage. They would argue that in 1994 the bank raised fees on most of its lending, including a doubling of fees on aircraft exports. The cuts in this option would force the bank to reduce funding for $2 billion to $7 billion worth of exports, thereby providing fewer jobs to U.S. workers. Supporters of the bank argue that it should be driven by demand, letting market forces determine export sales rather than having the bank target which sales to finance. Reducing the subsidy would limit the bank's exposure in high-risk markets, the very markets in which private-sector financing is most difficult to obtain. The bank also plays an important role in encouraging the participation of small businesses in export markets. Finally, supporters claim that the bank's subsidies help to increase the output of high-technology industries and allow them to achieve economies of scale.

Critics of Eximbank dispute these claims. The bank, they point out, extends credit assistance to parties other than exporters facing foreign-subsidized competition. The bank's new fee structure is still among the lowest of any major exporting country. And little evidence exists that the credits create jobs. Finally, since the United States encourages the creation of free-market economies throughout the world, providing subsidies to promote exports is contrary to the free-market policies the United States advocates.

DEF-39 REDUCE STATE DEPARTMENT FUNDING AND ELIMINATE MISCELLANEOUS FOREIGN AFFAIRS ACTIVITIES

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
			From the 1995 Funding Level			
Budget Authority	85	115	150	180	180	710
Outlays	75	105	135	165	170	650
			From the 1995 Funding Level Adjusted for Inflation			
Budget Authority	165	280	390	510	605	1,950
Outlays	135	240	345	460	560	1,740

The Department of State, which employs about 25,000 full-time personnel in the United States and in foreign countries, promotes U.S. foreign policy interests abroad. Other, smaller agencies also conduct research and activities relating to foreign affairs.

The State Department will receive about $2.6 billion in 1995 to administer its foreign affairs programs. In the early 1980s, that portion of the State Department's budget was approximately $1.7 billion. Inflation was responsible for some of the increase, but the funding that was added to provide security for diplomats and to establish new posts in the republics of the former Soviet Union also contributed. Even when funding for added security and new posts is excluded, however, real growth from the 1980s through 1995 amounts to about 10 percent. The increases in funding mainly reflect growth in salaries and related expenses and in rental and acquisition costs of residences and office space.

The State Department is not the only federally funded organization that works on foreign affairs activities. Smaller agencies such as the U.S. Institute of Peace, the Asia Foundation, the East/West Center, and the North/South Center perform functions that could be eliminated without directly affecting U.S. foreign policy. Those agencies, which have combined budgets totaling about $60 million annually, conduct research and work to build better relations between the United States and various foreign countries.

This option would reduce State Department funding from 1996 through 1999 by phasing in nominal cuts in appropriations. By 1999, State Department funding (excluding the cost of security improvements and new posts in the former Soviet Union) would return to its real level of the early 1980s. Compared with the 1995 funding level, this option would save $710 million over the 1996-2000 period--$430 million by reducing State Department funding and $275 million by eliminating the related functions of various other agencies dealing in foreign affairs. Compared with the 1995 funding level adjusted for inflation, this option would save about $2 billion over the five-year period.

The department could accommodate these cuts by readdressing its mission and implementing a policy of comprehensive change. Some of those changes might include eliminating or consolidating posts in less important areas of the world, reorganizing the State Department's bureaucracy, and reducing the number of senior foreign service officers, which some studies have suggested is too high given the size of the foreign service.

The State Department's Office of the Inspector General (OIG) has outlined several specific recommendations for achieving savings. An OIG audit of the Diplomatic Security Field Office Operations indicated that the efficiency of that office could be improved by more carefully screening passport fraud cases, eliminating approximately 100 special agent positions at field and resident offices, and ending nonessential security services. In addition, changing overseas allowance rates could yield savings of nearly $10 million a year. These changes would make the State Department more efficient and able to operate at this lower funding level.

Opponents of this option would argue that more money--not less--will be needed to handle the new, complex issues that the United States now faces abroad. The current number of senior foreign service officers may be needed to represent the United States in the post-Cold War world in which economic superpowers will compete. Finally, the smaller agencies dealing in foreign affairs might be viewed as providing valuable independent analysis of issues and improving the United States' understanding of, or relations with, foreign countries.

DEF-40 REDUCE DEVELOPMENT ASSISTANCE

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
			From the 1995 Funding Level			
Budget Authority	800	990	1,190	1,390	1,620	5,990
Outlays	80	530	780	970	1,160	3,520
			From the 1995 Funding Level Adjusted for Inflation			
Budget Authority	890	1,160	1,460	1,750	2,080	7,340
Outlays	100	610	930	1,200	1,480	4,320

The Agency for International Development (AID) administers development-related projects and provides technical advice in 109 developing countries and emerging democracies. Since the creation of AID in 1961, the United States has spent $126 billion on development assistance. AID and its programs have been criticized, however, for waste and ineffectiveness. This option would markedly scale back AID and the programs it administers, thereby allowing the agency to focus on more attainable goals in countries that are most likely to benefit from U.S. development assistance. Reducing development assistance along the lines suggested below would save $800 million in 1996 and $6 billion over the five-year period compared with the 1995 funding level. Relative to the 1995 level adjusted for inflation, savings would be $890 million in 1996 and $7.3 billion over five years.

Two decades ago, the last major revision of the Foreign Assistance Act directed AID to focus on four objectives: alleviating poverty, fostering economic growth, encouraging respect for civil and economic rights, and integrating developing countries into an international economic system. Since then, the Congress has added more than 30 new objectives that range from promoting biodiversity to reducing urban pollution. Reports issued by AID, as well as by the Congress and independent commissions, have stated that the agency has too many objectives and supports projects in too many countries. Those reports recommend that AID narrow its focus and fund fewer projects with more attainable goals.

Some critics of assistance offer an even harsher assessment. They contend that even if U.S. development assistance programs were properly managed and targeted, the resulting improvement in economic development would be marginal. Those critics argue that countries whose economies have grown steadily have typically not achieved that growth through the use of foreign assistance but by adopting economic policies that promote free markets and trade. Furthermore, some analysts contend that because the performance of the U.S. economy affects the economies of developing countries, a healthy U.S. economy is the best type of development assistance the United States can provide. With a healthy economy, U.S. consumers will buy more imports from developing countries, thereby creating wealth and promoting markets and trade in those countries.

The option would phase in spending reductions over the next five years. Development assistance grants would be cut by one-third from the level provided in 1995. Faced with a reduction of that size, the Administration would probably triage its development assistance programs--eliminating assistance to some middle-income countries no longer in need of U.S. assistance and terminating assistance in countries in which U.S. assistance has shown no results. The estimate assumes that the Administration would close between 15 and 20 overseas missions from 1996 through 1998, thereby saving administrative expenses; it also includes the Administration's 1995 funding reductions planned for Eastern Europe and the new states of the former Soviet Union.

In addition, this option would eliminate the housing investment guarantee program, which arguably is inconsistent with other U.S. objectives. The program provides high-interest, hard-currency loans to developing countries for housing. A decade after the recognition of the international debt crisis, that form of U.S. assistance is not helping recipient countries, because housing is an activity that does not generate the foreign exchange those countries need to retire their debt.

Opponents of these reductions would argue that AID has technical expertise that the developing world finds valuable. Despite the mixed success of AID projects, its supporters contend that the United States should continue to fund development assistance programs in a large number of countries because many problems that developing countries face cannot be solved by the free market alone. Such problems as environmental pollution, the spread of the acquired immunodeficiency syndrome, and immigration and refugee problems are international in scope and thus affect the United States. Opponents of cutting development assistance might argue that such aid is a foreign policy tool that can help solve those problems and ultimately help the United States itself. Finally, U.S. aid might be justified on purely humanitarian grounds.

DEF-41 ELIMINATE P.L. 480 TITLE I SALES AND TITLE III GRANTS

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
			From the 1995 Funding Level			
Budget Authority	0	430	430	430	430	1,720
Outlays	0	240	410	430	430	1,510
			From the 1995 Funding Level Adjusted for Inflation			
Budget Authority	0	460	470	490	500	1,920
Outlays	0	250	440	480	500	1,670

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) was enacted during a period when the inconvertibility of foreign currencies and the lack of foreign exchange held by potential customers limited commercial exports of large domestic surpluses of agricultural commodities. Sales for foreign currencies, concessional credit, and grants provided a mechanism for developing markets, disposing of surplus commodities, and furthering U.S. foreign policy interests.

Changes in the world over the past 40 years may have rendered the program obsolete, however, and it may now be an inefficient means of achieving each of those objectives. This option would eliminate sales under title I of the act and grants under title III beginning in 1997. That would reduce the federal budget by $430 million in 1997 and $1.7 billion through 2000 relative to the 1995 funding level. Savings would be $460 million in 1997 and $1.9 billion through 2000 relative to the 1995 funding level adjusted for inflation. Humanitarian and emergency feeding programs are funded under title II of P.L. 480 and under section 416 of the Agricultural Act of 1949 and would not be affected by this option.

The market development aspect of the P.L. 480 program is relatively insignificant for two reasons: exports under titles I and III are a small portion of total U.S. agricultural exports, and the countries currently receiving P.L. 480 commodities are unlikely to become commercial customers. In 1956 through 1965, the P.L. 480 program financed between one-quarter and one-third of all agricultural exports. Since the mid-1960s, the value and tonnage of shipments under titles I and III have declined as commercial exports have grown. In 1993, those shipments represented less than 2 percent of the $43 billion in total agricultural exports. U.S. security or foreign policy interests largely determine which countries receive commodities under titles I and III. If market development remains an objective of U.S. policy, it should focus on countries that are likely to become commercial customers in the near term. Other programs such as the Commodity Credit Corporation's short- and intermediate-term credits and the Export Enhancement Program are designed to protect old markets and to penetrate new markets at lower cost to the U.S. government.

Disposing of surpluses is no longer a primary concern of the program. The government no longer holds stocks of most of the commodities shipped under P.L. 480; they are managed instead through the Acreage Reduction Program. The option would terminate title I and title III shipments after the 1996 crop year. The delay would permit the Department of Agriculture to lower production through an increased acreage set-aside in 1996, which would not build surpluses or affect the budget.

Providing assistance to developing countries through P.L. 480 is not always an efficient use of U.S. resources. Many of the U.S. agricultural commodities that foreign countries buy with P.L. 480 assistance are resold to generate local currency.

Those funds are used in turn to support local budgets and local development. But the inexpensive food may discourage local investment in agriculture, may lower rural employment and income, and may discourage the development of local stockpiles. To the extent that one or more of those effects occurs, the United States has hindered local development.

In some cases, the terms of credit granted under title I may actually harm the economies of the countries that receive the credits. Those credits have maturities as long as 30 years, and thus the obligation for repayment remains long after the item purchased has been consumed.

These drawbacks notwithstanding, titles I and III of P.L. 480 also have their supporters who argue that the programs are a flexible, fast means of providing assistance to friendly countries. They also point out that the programs reduce the likelihood that surpluses of agricultural commodities will depress prices within the United States and that they offer some humanitarian benefits: agricultural products are shipped, and hungry people are fed.